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**AGRA
INDUSTRIES LIMITED**

1978 FIFTEENTH ANNUAL REPORT

AGRA

INDUSTRIES LIMITED

CORPORATE HEAD OFFICE: 1101 CN TOWERS, SASKATOON, CANADA, S7K 1J5
 PHONE (306) 653-5163 TELEX 074-2496

BOARD OF DIRECTORS

D. H. C. BEACH	Nipawin
J. S. BURTON	Regina
T. CHEBERIAK	Regina
S. J. HAMER	Vancouver
P. KOZICKI	Toronto
W. B. MANOLSON	Toronto
T. A. McLELLAN	Saskatoon
C. ROLES	Saskatoon
R. A. SCHWIEDER	Saskatoon
H. TENENBAUM	Toronto
B. B. TORCHINSKY	Toronto

OFFICERS and CORPORATE MANAGEMENT

B. B. TORCHINSKY	President and Chairman of the Board
T. A. McLELLAN	Executive Vice-President and Secretary
H. TENENBAUM	Vice-President, Foods Group
P. KOZICKI	Vice-President, Engineering Group, Contracting
R. A. SCHWIEDER	Vice-President, Engineering Group, Consulting
K. J. TAYLOR	Vice-President, Beverages Group
A. W. BEAN	Vice-President, Special Investments
S. R. TORCHINSKY	Co-ordinator, Communications Group
W. V. FURBER	Vice-President, Communications Group, Radio
R. G. DITTMER	Treasurer
O. P. RITTER	Corporate Counsel

COMPANY AUDITORS

Winspear Higgins Stevenson and Co.,
 Saskatoon, Saskatchewan

REGISTRAR and TRANSFER AGENT

Common shares:
 Canada Permanent Trust Company
 Convertible Debentures:
 Canada Trust Company

SECURITIES EXCHANGE LISTING

Toronto Stock Exchange
 Montreal Stock Exchange

1978 FIFTEENTH ANNUAL REPORT

FINANCIAL HIGHLIGHTS

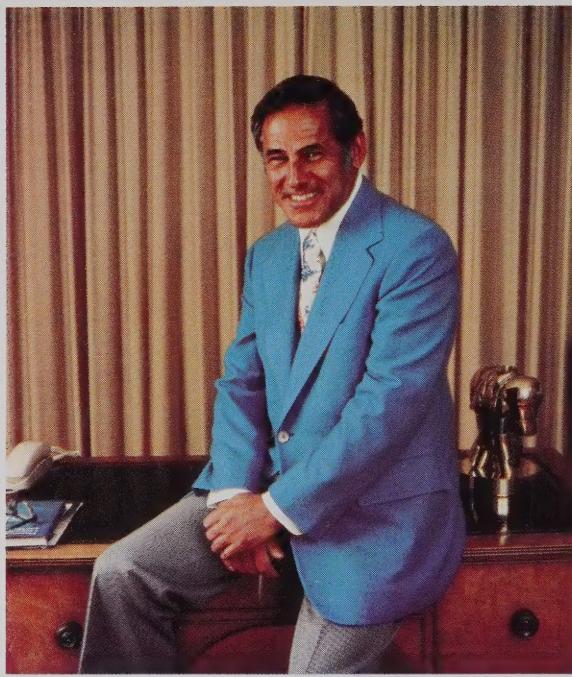
	1978	1977
Sales	\$181,730,078	154,077,097
Net Earnings — After Taxes	6,320,883	1,633,358
Net Earnings Per Share	2.67	.70
Cash Flow	9,692,023	5,212,392
Cash Flow Per Share	4.09	2.22
Equity Per Share	12.65	10.32
Average Shares Outstanding ...	2,370,139	2,344,840
Return on Equity	23%	7%

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ANNUAL MEETING

The annual meeting of shareholders will be held at 2:30 p.m. on Wednesday, January 24, 1979 in Pier 2, Toronto Hilton Harbour Castle at One Harbour Square. If you cannot be present, please vote by proxy.



REPORT TO THE SHAREHOLDERS

Fiscal year 1978 (which ended July 31st, 1978) marks our fifteenth year of operations. It also marks the end of one era and the beginning of another for AGRA. The sale of our Gainers meat packing plant ended our major involvement in the commodities market, while our purchase of a substantial portion of the shares of Cybermedix Limited expanded our activities in the public service field.

Results for all our operating groups, except the Engineering Group, showed a general improvement over last year, and the Engineering Group fell back only slightly from the previous year's performance. Furthermore, a major improvement in our overall financial position was accomplished with the sale of Gainers. Consolidated sales reached a record \$181,730,078 for the year compared with \$154,077,097 last year. Total earnings, after allowing for full taxes, soared to a very substantial \$6,320,883 or \$2.67 per share (based on 2,370,139 shares outstanding) compared with \$1,633,358 or 70 cents per share (based on 2,344,840 shares) last year. This is an all time record. The 1978 results include \$3,741,005 (or \$1.58 per share) of extraordinary earnings and this compares with \$506,138 (or 21 cents per share) of extraordinary losses in 1977.

A major contribution to earnings was provided by our Foods Group which showed a substantial increase in net earnings compared with last year. All divisions in this Group posted improved results over the previous year, and in particular, our Research Foods division demonstrated considerable growth through internal development of new products.

Our Engineering Group continued to be burdened by generally depressed economic conditions, however there is definitely some evidence of light at the end of the tunnel. Operating results for the year were slightly below last year and were far from satisfactory. An improving trend started to develop in the fourth quarter, but at a slow rate. Outlook for a continuing development of this improving trend appears likely in the new year.

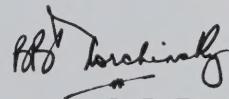
Operations of the Beverages Group continued on track and resulted at year-end with a respectable increase in net earnings over last year. The new equipment which had been installed in our Calgary plant in the previous year settled down to running smoothly during the year and the consolidation of production facilities in Calgary for all of southern Alberta was successfully completed.

For the ninth year in a row our Communications Group has shown a marked improvement over the previous year's results. This substantial increase was due partly to the natural growth of our existing cable television and wholesale news magazine companies. A part of the increase was also due to the addition of Wired City Communications, a public company which operates a cable television system in part of Scarborough (Toronto). We acquired 82 percent of the shares of Wired City early in the year and this interest has subsequently been increased to 95 percent.

Two major developments initiated during the year are expected to produce marked changes in the direction and development of AGRA over the next few years. The sale of our Gainers division provided a substantial capital gain and a reduction in our debt load. Also, the sale moves us further away from an involvement in food commodities trading. We originally began to move in this direction in 1975 when we sold our rapeseed processing facility. This latest sale puts an end to any major involvement for AGRA in such a volatile and uncertain area. The second major development was our acquisition of a 47 percent interest in Cybermedix Limited in exchange for 30 percent of our wholly-owned subsidiary, CableNet Limited. Cybermedix operates medical diagnostic laboratories with nearly 50 locations in Ontario, Quebec and the United States. It bears many similarities to the communications business in that it is service oriented, deals directly with the public and operates in a government regulated environment.

After fifteen years our company is stronger and more stable than it has ever been. We have come through some difficult times but it has all been most interesting and has left our entire staff wiser and better equipped to cope with ongoing problems and successes. An examination of our balance sheet will quickly reveal that AGRA is a better company from a financial point of view than ever before. But even more important, I am confident that AGRA is a much better company from a people point of view than it has ever been before. And I am also confident that the quality of our people will combine with our improved financial capability to ensure many good things for AGRA in the future.

Respectfully submitted on behalf of the Board of Directors,



B. B. Torchinsky
Chairman and President

Saskatoon
November, 1978



AGRA's directors at work.

Seated: H. Tenenbaum, B. B. Torchinsky, W. B. Manolson.

Standing (left to right): C. Roles, T. Cheberiak, S. J. Hamer, T. A. McLellan, J. S. Burton, P. Kozicki, R. A. Schwieder.

Absent: D. H. C. Beach.



C



D



E

- A. W. J. Lafave's production plant in St. Jerome, Quebec, contains 85,000 square feet all under one roof.
- B. New controlled temperature warehouse recently built by Lafave to store chocolate and shortening.
- C. New product development is an ongoing challenge at Research Foods.
- D. Quality control on products for the baking industry is a daily practice at Lafave's.
- E. Expanded cooler facility at Research Foods stores up to one million pounds of refrigerated product.

FOODS GROUP

AGRA's Foods Group enjoyed a very successful year in 1978 for two reasons. Both sales and profits were considerably ahead of last year, and in addition, a very substantial capital gain was realized from the sale of one division. Total sales reached a record \$103,745,543 and after-tax earnings reached \$4,307,818 compared with sales of \$90,110,489 and net earnings of \$921,942 last year. A major portion of current earnings occurred as an extraordinary gain of \$3,017,941, most of which resulted from the sale of our Gainers meat packing plant at year-end.

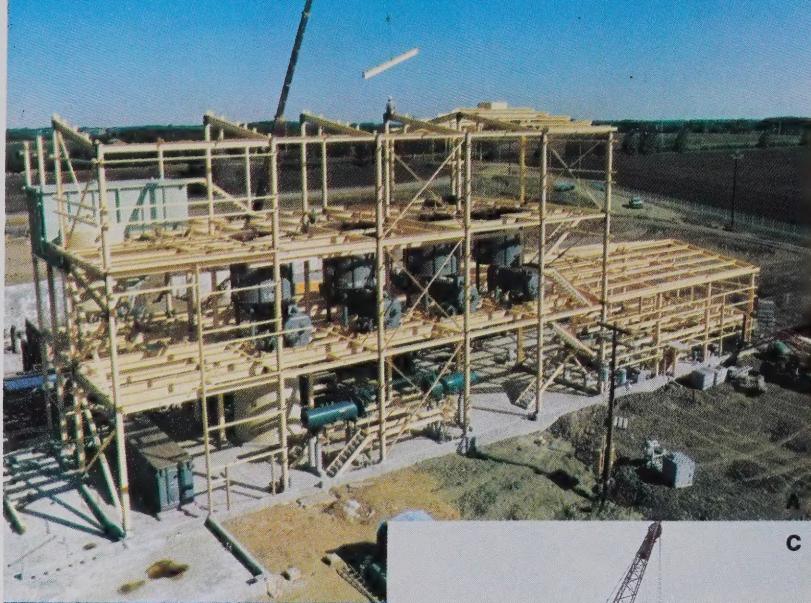
The largest single contributor to operating profits was our Research Foods division. This fine company supplies specialized ingredients such as dehydrated cheese powders, specialty seasonings, vitamins and other unique products to the food processing industry. Research Foods have emphasized new

product development for the past few years. Their approach has resulted in the successful introduction of several new specialty food lines as well as a considerable expansion of their existing product areas. The company's plant facilities in Toronto have recently undergone an extensive upgrading and enlargement program. This will enable Research to continue their ongoing growth and development plans.

Our W. J. Lafave & Sons division processes and distributes a large range of specialty ingredients primarily to the baking industry across Canada. Through their subsidiary, Magnani Inc., they also produce and distribute pasta food products. Lafave brought in good results for fiscal 1978 in spite of a six month strike during the year which closed down one of their major customers and seriously affected their sales volume. They have recently

enlarged their plant facility and expanded the scope of their operations to include a cocoa grinding department and an ice cream coatings department.

Immediately after our fiscal year-end we completed an agreement to sell our Gainers Limited meat packing operation. The sale of Gainers is consistent with our decision taken several years ago to move away from the food commodities trading areas. It will cause a substantial reduction in total revenues since this company has long been our largest subsidiary insofar as sales volume is concerned. However, the natural growth of the other companies in our Foods Group will hopefully offset a substantial portion of lost earnings resulting from the sale of Gainers. Furthermore, the added financial strength provided from the sale should enable a more rapid development of other profitable operations.



A



B



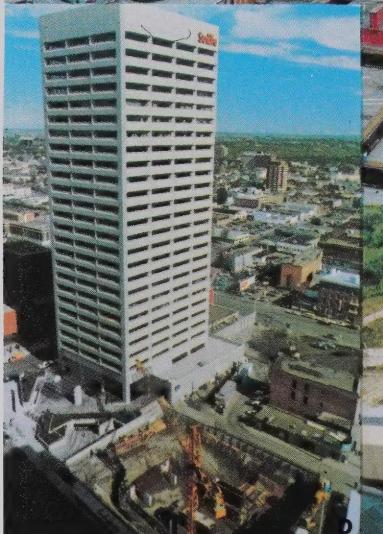
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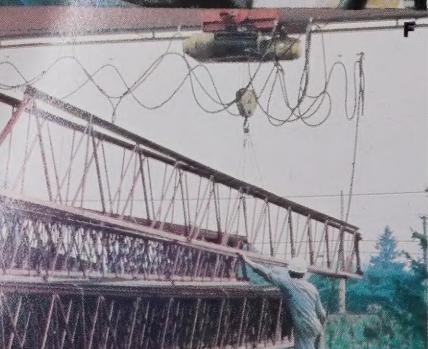
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F



E



F

A. The Cambrian Engineering Group provide conceptual design, procurement and construction supervision for a major rapeseed processing plant near Fort Saskatchewan, Alberta.

B. Exposed aggregate precast panels for the Eastman Dental Centre in Rochester were produced by Beer Precast.

C. A unique installation of 100' pipe piles by Jensen & Reynolds from the top of a five storey parking garage at San Francisco International Airport will support a new addition to the parking structure.

D. BBT Geotechnical Consultants provided foundation engineering services for SunLife Building and Canadian Freehold Building (under construction in foreground) in Edmonton.

E. Cambrian Engineering, in association with a Bolivian consultant, was retained to provide technical support in the commissioning of a 30,000 metric ton per year oilseed extraction plant and edible oil refinery at Villamontes, Bolivia for the Bolivian national oil processing company, Corporacion Boliviana de Fomento (CBF).

F. Ridgeway Fabricators specialize in production of open-web steel joists in Vancouver.

ENGINEERING GROUP

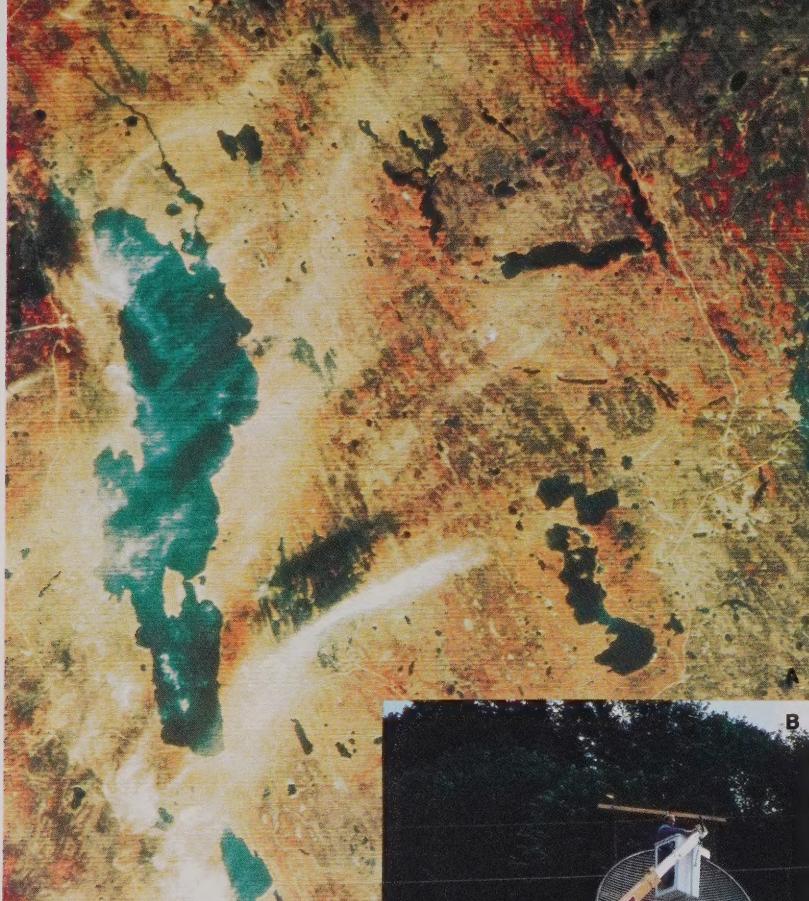
A continuation of the difficulties which afflicted operations of the Engineering Group in 1977 kept final results for 1978 at a lower level than the previous year. Total sales increased to \$58,543,289 compared with \$47,960,799, but earnings after full tax reached only \$165,534 compared with \$288,905 in 1977. This very low return was caused by a combination of soft markets in eastern Canada, excessive competition in western Canada and construction strikes in various parts of the country.

Our Western Caissons division ended the year with a reasonable improvement over the previous year. This was achieved by closing one office completely and drastically reducing the size and overhead in several other offices. Our Greenlees Piledriving division in Vancouver performed poorly for the second year in a row and as a result, shortly after the year-

end, we merged this company with a larger competitor, Fraser River Pile Driving. As a result, AGRA will now hold a minority interest in the combined operations of these two companies. Meredith Drilling, Maxum Structures, Beer Precast and Mocoat Industries all had disappointing results for the year's operations. Our subsidiary in Kuwait, Western Foundation & Marine Construction, ended the year with relatively small returns, namely because of a lull in construction for the last few months of the fiscal year. On the other hand, Jensen & Reynolds in San Francisco produced excellent results and Coast Steel Fabricators, together with their subsidiary Ridgeway Fabricators, came through at year-end on an upward rebound with a better than anticipated performance. Similarly, our consulting engineering operations completed the year with profits reasonably well on track. In particular, the Torchinsky Consulting Group

were busy throughout the year and performed very well indeed. The BBT Geotechnical division contributed some earnings as did the Cambrian Engineering Group. Cambrian is presently completing an internal reorganization program which should improve their operating results in the future.

The Engineering Group as a whole has been very active in the past two years, adjusting their operations to better cope with the changes taking place in our economy. All of the companies in our group are now in an excellent position to make the most of opportunities which lie ahead. While the return to more realistic profit levels cannot be accomplished overnight, the direction of the group is clearly up. Operating results for the early part of the new year verify the foregoing statement and we anticipate that this direction will continue for the entire year.



A. ISIS produced this aerial picture from the Landsat satellite showing the Montreal Lake area about 60 miles north of Prince Albert.

B. One of the first UHF parabolic antennae to be installed in Canada was erected recently in Chilliwack where it brings in Channel 21 (CKVU-TV) from Vancouver.

C. Author Ann Forhmzway autographs her latest book "Your Destiny is in Your Name" at a recent promotion organized in Lethbridge by General News.

D. Radio CKO provides continuous news coverage across Canada. Don Hickman and Deborah Schramek are part of the CKO team.

E. New office and studio building for Wired City Communications is presently under construction in Scarborough (Toronto).

COMMUNICATIONS GROUP

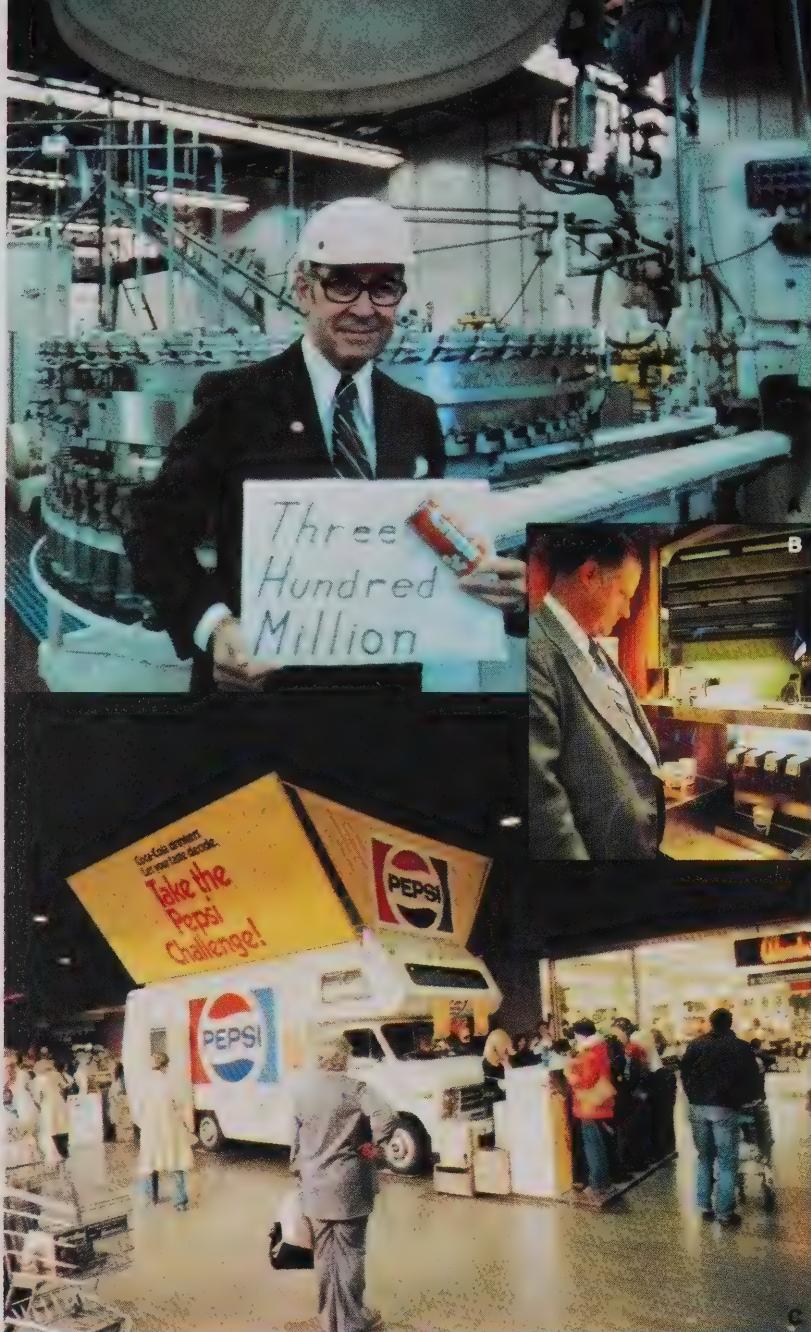
Total revenues generated by our Communications Group reached \$6,133,447 compared with \$4,390,464 in fiscal 1977, and after-tax earnings increased to a record \$1,146,344 compared with \$425,587 in the previous year. This substantial improvement in performance is due partly to our normal growth, partly to the acquisition of a 95 percent interest in Wired City Communications, a public company which provides cable television services to a portion of Scarborough (in Toronto), and partly to an extraordinary gain of \$569,403 which we realized from the exchange of 30 percent of our CableNet shares for 47 percent of Cybermedix Limited. The growth of our Communications Group is best reflected in the total number of cable subscribers now served by all our systems. Including Wired City, this now exceeds 67,000 compared with 44,000 last year — a 52 percent increase.

An important contribution to the improved performance of the Communications Group was made by our General News division which is a wholesale distributor of magazines and paper-back books in southern Alberta.

General News enjoyed a significant increase in sales volume and in earnings. This fine operation has managed to continuously produce improved operating results every year throughout the nine years since we acquired it.

Our investments in both Integrated Satellite Information Services (ISIS), in which we hold a 50 percent interest, and in Canada All-News Radio, in which we hold a 45 percent interest, did not yield any returns for fiscal 1978. ISIS is still busy developing their new equipment and broke even for their year's work. Delays in installing their new laser beam recording equipment will set back their development timetable by nearly two years. Canada All-News Radio is now broadcasting, with call letters CKO, in Montreal, Ottawa, Toronto, London, Edmonton, Calgary and Vancouver. Start-up costs are running higher than anticipated, but the response to our programming is encouraging and we look forward eventually to a healthy and viable operation once the radio stations become established in their various communities.

A major development in our Communications Group was initiated in the latter half of the fiscal year when we agreed to purchase a 47 percent interest in Cybermedix Limited in exchange for 30 percent of our wholly-owned subsidiary, CableNet Limited. Cybermedix is in the business of medical diagnostics which entails reporting to medical practitioners on the results of tests requested for their patients. The company operates medical laboratories in nearly 50 locations in Ontario, Quebec and the United States. Subsequent to our year-end, we completed the second phase of a two-step acquisition of Cybermedix by exchanging the balance of our cable television companies for an additional 24 percent of the Cybermedix shares. We thus ended up in the new year (fiscal 1979) holding 71 percent of Cybermedix which in turn holds all of our cable television interests. Since the date of acquisition Cybermedix has continued to show increasing revenues and profits and plans are afoot to expand operations further in both the U.S.A. and Canada.



- A. Vice-President Ken Taylor holds the three hundred million can to be produced on our canline in Calgary.
- B. Marketing manager Stu McQuay checks one of the 18 outlets which use our products exclusively at the new Calgary International Airport.
- C. The Pepsi Challenge Van attracts attention at a local shopping mall.
- D. Twin storage hoppers load crushed glass at our Contain-A-Way plant in Calgary for recycling into reflecting paint.

BEVERAGES GROUP

Operations of our Beverages Group for fiscal 1978 resulted in another excellent year of progress and profits. Total sales reached a record \$13,307,799 compared with \$11,615,345 in the previous year, and after-tax earnings reached \$701,187 compared with \$503,062 in the prior year. Included in the current year's earnings is an extraordinary gain of \$184,976 which we realized from the sale of a surplus building in Lethbridge.

AGRA's Beverages Group manufactures and distributes several nationally branded soft-drink lines in southern Alberta. Franchised products include Pepsi-Cola, Seven-Up and Crush brands. Manufacturing operations have been recently consolidated in our modern 80,000 square foot plant in Calgary, while warehousing and distribution functions are conducted from facilities centred in Calgary and Lethbridge.

Our Beverages Group also operates Stampede Vending which supplies industrial ac-



counts with a full service line of soft-drinks, coffee and snacks from vending machines. Another division of our Beverages Group operates a major depot system throughout the province of Alberta for collection of soft-drink containers as well as wine and liquor bottles for recycling purposes. This system consists of 185 collection depots scattered throughout the province plus two major sorting and processing plants located in Calgary and Edmonton.

After a slow start in the early months of the year due to bad weather, business for the Beverages Group improved in the latter part of the year. The last quarter provided the best period of operations and was responsible for the good results attained. Can volumes increased dramatically during the year and we had to operate on a multiple shift basis through the summer to keep up with demand. Non-carbonated drinks such as lemonade and iced tea suddenly became popular during the summer and this accounts in part for the in-

creased can volume. How consistent this demand will be remains to be seen over the next year.

Our container recycling business had a busy and successful year. A substantial increase in total number of containers handled was probably due partly to the natural population growth in Alberta and partly to the beer strike which occurred in western Canada during the summer. Our Stampede Vending operation was also busy and successful. We look forward to further expansion of this business in the new year.

The outlook for 1979 is for a reasonable increase in sales volume and profit which should now flow from the efficiencies developed in our consolidated manufacturing facilities in Calgary. We will have to be more aggressive in the market place to meet competitive pricing, however, we are fully aware of the requirements and we have the team to do the job.

TEN YEAR REVIEW

EARNINGS STATISTICS

	1978	1977	1976
Revenues	\$181,730,078	*146,445,214	149,831,095
Depreciation	3,560,953	*2,809,913	2,242,105
Pre-Tax Earnings	8,134,065	*3,572,745	6,318,784
Income Taxes	1,813,182	*1,433,249	2,786,256
Net Earnings	6,320,883	*2,139,496	3,532,528
Cash Flow	9,692,023	*5,841,809	6,767,819
Dividends Paid	835,762	761,209	685,687

BALANCE SHEET STATISTICS

Current Assets	\$ 37,192,909	38,157,933	30,603,645
Current Liabilities	26,871,633	28,592,991	23,536,967
Working Capital	10,321,276	9,564,942	7,066,678
Fixed Assets — Net	26,321,703	25,572,113	22,610,704
Long-Term Debt	21,627,655	19,220,781	15,167,565
Shareholders' Equity	30,019,197	24,465,701	22,610,191

COMMON SHARE STATISTICS

Earnings per Share	\$ 2.67	*.91	1.62
Cash Flow per Share	4.09	*2.49	3.10
Dividends per Share36	.34	.32
Equity per Share	12.65	10.32	10.18
Return on Equity (average)	23%	*9%	17%

OTHER STATISTICS

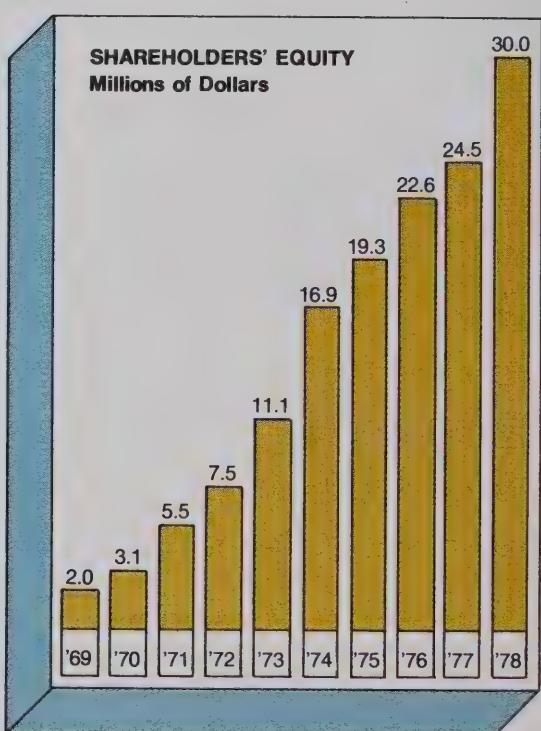
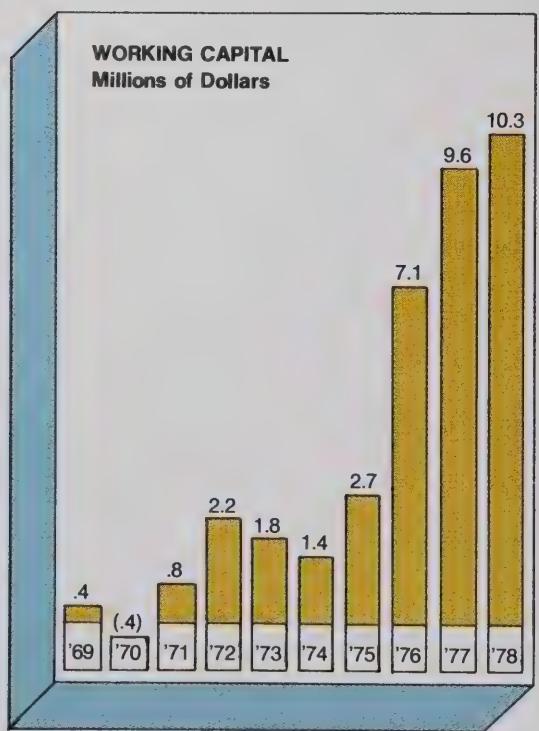
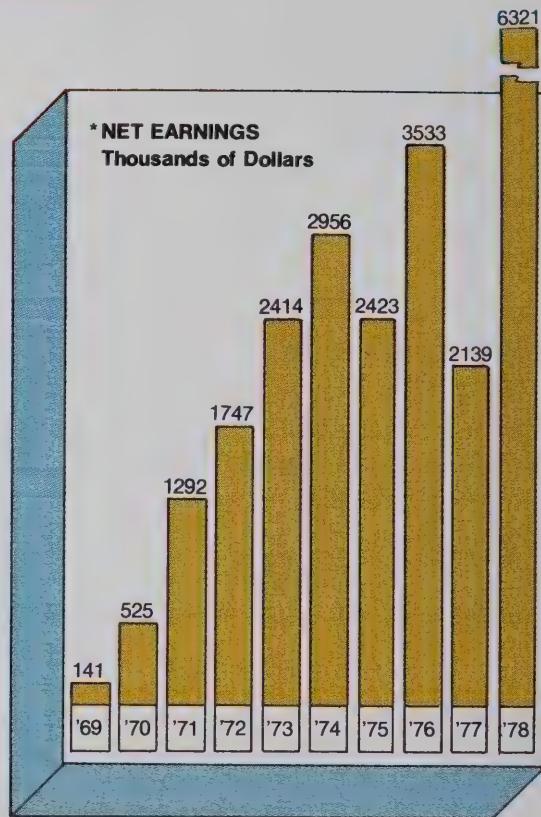
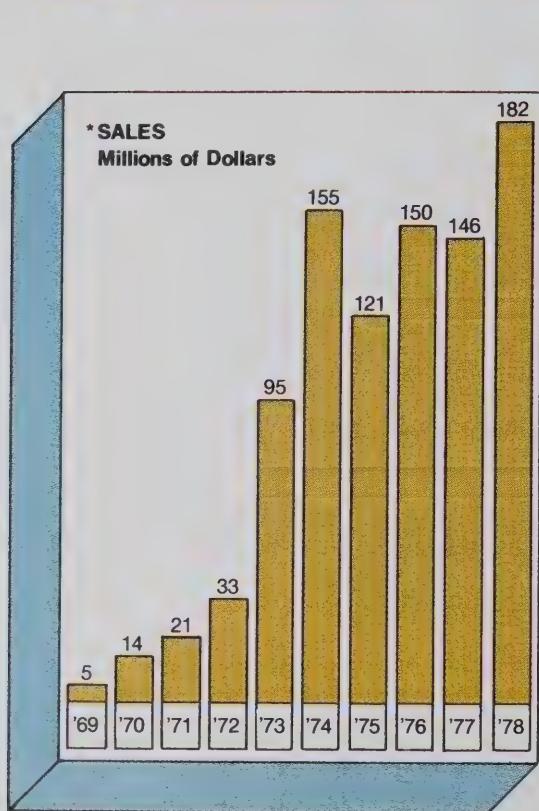
Average Shares Outstanding ...	2,370,139	2,344,840	2,186,010
Number of Shareholders	1,950	1,900	1,900

*1977 and 1975 statistics are based on continuing operations.

1975	1974	1973	1972	1971	1970	1969
*121,104,857	154,685,149	94,613,005	32,542,237	20,945,938	14,388,899	4,889,355
*1,594,556	1,692,307	1,163,237	647,896	484,614	315,527	58,782
*4,820,837	5,270,429	4,252,073	3,258,395	2,392,547	758,361	274,022
*2,397,730	2,314,270	1,837,991	1,511,705	1,100,165	232,984	133,225
*2,423,107	2,956,159	2,414,082	1,746,690	1,292,382	525,377	140,797
*5,439,024	5,774,501	4,550,487	3,373,114	2,601,772	933,901	337,325
553,570	397,348	210,850	150,493	97,204	nil	51,638
28,860,017	39,172,620	22,585,054	11,184,643	7,076,106	3,462,991	1,189,655
26,142,108	37,728,360	20,817,298	9,001,735	6,279,055	3,895,026	819,778
2,717,909	1,444,260	1,767,756	2,182,908	797,051	(432,035)	369,877
18,492,437	25,136,753	21,149,650	12,752,947	8,177,940	5,165,317	2,940,064
11,661,885	15,646,934	17,434,139	10,032,670	3,993,232	2,839,583	1,565,532
19,316,386	16,946,808	11,132,809	7,529,954	5,459,833	3,105,092	2,020,998
*1.14	1.55	1.37	1.05	.83	.36	.12
*2.55	3.04	2.58	2.03	1.68	.64	.27
.26	.21	.12	.09	.06	nil	.05
9.06	7.97	6.24	4.50	3.37	2.10	1.65
*13%	21%	26%	27%	30%	19%	10%
2,129,177	1,896,507	1,764,390	1,664,541	1,548,570	1,449,040	1,229,090
2,000	1,950	1,650	1,600	1,550	1,450	1,100

Shoring and foundation caissons for the Energy Plaza in downtown Denver are installed by Meredith Drilling who also provided caisson foundations for the four major buildings in the background.

TEN YEARS OF PROGRESS



*1977 and 1975 statistics are based on continuing operations.



AUDITORS' REPORT

To the Shareholders

We have examined the consolidated balance sheet of Agra Industries Limited as at July 31, 1978 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at July 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Winspear Higgins Stewarts & Co.
Chartered Accountants

SASKATOON, Canada
October 6, 1978

AGRA INDUSTRIES LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

Year Ended July 31, 1978

	1978	1977
Revenue		
Sale of products, contracts and fees (Note 11)	<u>\$181,730,078</u>	<u>154,077,097</u>
Expenses		
Cost of sales and services, selling, general and administrative	171,019,800	145,022,572
Depreciation	3,560,953	2,818,559
Interest on long-term debt	2,331,892	2,093,688
Other interest	956,948	752,904
	<u>177,869,593</u>	<u>150,687,723</u>
Earnings before income taxes, minority interest and extraordinary items	3,860,485	3,389,374
Income taxes	<u>1,649,051</u>	<u>1,433,249</u>
Minority Interest	2,211,434	1,956,125
Earnings of non-consolidated entities	<u>(49,611)</u>	<u>—</u>
	<u>418,055</u>	<u>183,371</u>
Net earnings before extraordinary items	2,579,878	2,139,496
Extraordinary items (Note 13)	<u>3,741,005</u>	<u>(506,138)</u>
Net earnings	<u><u>\$ 6,320,883</u></u>	<u><u>1,633,358</u></u>
Earnings per share		
Before extraordinary items	<u><u>\$ 1.09</u></u>	<u><u>.91</u></u>
After extraordinary items	<u><u>\$ 2.67</u></u>	<u><u>.70</u></u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended July 31, 1978

Balance, beginning of year	<u>\$ 14,430,506</u>	13,591,050
<i>Add</i> net earnings	<u>6,320,883</u>	<u>1,633,358</u>
	<u><u>20,751,389</u></u>	<u><u>15,224,408</u></u>
<i>Less:</i> Dividends paid	<u>835,762</u>	<u>761,209</u>
Tax paid on undistributed income (refund)	<u>(31,725)</u>	<u>32,693</u>
	<u><u>804,037</u></u>	<u><u>793,902</u></u>
Balance, end of year	<u><u>\$ 19,947,352</u></u>	<u><u>14,430,506</u></u>

See accompanying notes.

AGRA INDUSTRIES LIMITED

CONSOLIDATED BALANCE SHEET

July 31, 1978

ASSETS

Current

Accounts receivable	\$23,779,429
Income taxes recoverable	—
Inventories and contracts in progress	12,380,706
Prepaid expenses	500,469
Other	532,305

	1978	1977
	\$23,779,429	22,862,278
	—	809,161
	12,380,706	13,674,765
	500,469	487,905
	532,305	323,824
	37,192,909	38,157,933

Investments

Equity in non-consolidated entities	5,940,442
Other — at cost	5,248,722
	11,189,164

	2,408,564
	831,732
	3,240,296

Fixed

Land	1,391,156
Buildings	5,792,200
Equipment	34,671,287

	1,528,206
	7,125,215
	32,591,470

Less accumulated depreciation	15,532,940
	26,321,703

	15,672,778
	25,572,113

Other

Excess cost of shares in subsidiaries and acquired goodwill	7,180,926
	502,886

	8,169,189
	776,432

Deferred charges	7,683,812
	8,945,621

	75,915,963
	\$82,387,588

ON BEHALF OF THE BOARD

B. B. TORCHINSKY — Director
T. A. McLELLAN — Director

See accompanying notes.

LIABILITIES	1978	1977
Current		
Bank indebtedness (Note 5)	\$ 8,745,161	10,563,199
Accounts payable	11,832,854	12,903,316
Income taxes payable	385,251	—
Current portion of long-term debt	3,623,106	3,220,119
	24,586,372	26,686,634
Deferred income taxes	2,285,261	1,906,357
	26,871,633	28,592,991
Long-term (Note 7)	21,627,655	19,220,781
Deferred income taxes	3,132,253	3,636,490
	51,631,541	51,450,262
Minority interest	736,850	—
SHAREHOLDERS' EQUITY		
Share capital (Note 9)		
Authorized		
Class A common voting convertible shares, without nominal or par value		
Class B common voting convertible shares, without nominal or par value		
Issued and outstanding		
1,670,343 Class A shares		
702,976 Class B shares		
2,373,319	10,071,845	10,035,195
Retained earnings	19,947,352	14,430,506
	30,019,197	24,465,701
	\$82,387,588	75,915,963

AGRA INDUSTRIES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended July 31, 1978

	1978	1977
Source of working capital		
Operations		
Net earnings before extraordinary items	\$ 2,579,878	2,139,496
Items not affecting working capital	<u>3,670,129</u>	<u>3,644,889</u>
	6,250,007	5,784,385
Proceeds from:		
Investments	623,112	380,354
Disposal of fixed assets	946,112	827,640
Long-term debt	5,233,123	7,183,650
Long-term debt and minority interest		
in companies acquired	2,244,089	209,730
Issue of share capital	36,650	1,016,054
Sale of subsidiary companies	<u>2,786,730</u>	<u>—</u>
	18,119,823	15,401,813
Use of working capital		
Investments	3,137,518	1,348,237
Purchase of		
Fixed assets	5,749,713	4,851,626
Fixed assets in companies acquired	3,065,246	1,813,932
Deferred expenses	149,858	210,610
Excess cost of subsidiaries and		
acquired goodwill	266,573	38,940
Retirement of long-term debt	4,059,101	3,340,164
Payment of dividends	835,762	761,209
Tax paid on undistributed income (refund)	(31,725)	32,693
Extraordinary items	131,443	506,138
	17,363,489	12,903,549
Increase in working capital	756,334	2,498,264
Working capital, beginning of year	9,564,942	7,066,678
Working capital, end of year	\$10,321,276	9,564,942
Represented by		
Current assets	\$37,192,909	38,157,933
Current liabilities	<u>26,871,633</u>	<u>28,592,991</u>
	\$10,321,276	9,564,942

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — July 31, 1978

1. Summary of Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of all companies in which the Company holds a controlling interest other than as outlined in Note 3.

The equity method of accounting is applied to investments in other entities.

Inventories

Inventories used in determining cost of sales are priced at the lower of cost and net realizable value. Engineering and construction contracts in progress are recorded at estimated realizable value on the percentage of completion basis.

Fixed Assets

Land, buildings and equipment are carried at cost. Depreciation of buildings and equipment has been provided in the accounts on a straight-line basis at rates estimated to provide for the amortization of cost of the buildings and equipment over their estimated useful life.

Profits and losses on the sale of fixed assets are included in earnings from operations unless of an extraordinary nature.

Excess Cost of Shares of Subsidiaries Acquired

For those companies acquired subsequent to August 1, 1973, the excess of the purchase price over the net fair value of identifiable assets is being amortized on a straight-line basis over forty years.

For those companies acquired prior to August 1, 1973, the excess of the purchase price over the net book value of the underlying assets at date of acquisition is not being amortized, since in the opinion of management, no diminution of value has occurred.

Deferred Charges

Deferred financing, development and other similar costs are amortized over the period of the related obligation or over a reasonable pre-determined period.

Deferred Income Taxes

The Company records the estimated future tax liability that may arise as a result of timing differences between recording for accounting purposes and recording for income tax purposes. In addition, the Company records the estimated future tax benefit from operating losses, when in the opinion of management, the realization of such benefits is virtually assured.

2. Acquisitions and Disposals

During the year the Company acquired the following:

95.2% of the outstanding shares of Wired City Communications Ltd. for \$997,518 in cash and promissory notes of \$904,016 for a total consideration of \$1,901,534.

100% of the outstanding shares of Mocoat Industries Ltd. for \$97,282 in cash and a promissory note for \$60,000 for a total consideration of \$157,282.

47% of the outstanding shares of Cybermedix Limited in exchange for 30% of the outstanding shares of CableNet Limited. The gain on the transaction is included in extraordinary income (Note 13).

The Company disposed of the following:

On August 2, 1978 the company sold 100% of its shares in Gainers Limited. As total consideration the company received the following:

(1) Equity in real estate	\$5,777,000
(2) Mortgage receivable	2,500,000
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On August 3, 1978 equity in certain of the real estate included above was sold to directors, officers and others for cash of \$1,000,000. In addition equity in certain of the real estate was sold to an affiliated company for cash of \$1,250,000 and a mortgage receivable of \$2,000,000.

The consideration received by the Company was equal to the consideration paid by the Company for this real estate.

The balance sheet at July 31, 1978 reflects cash receivable of \$2,652,000, notes and mortgages of \$5,500,000 and an undivided interest in real estate property of \$125,000 which resulted from the sale. The gain on the sale is included in extraordinary income for the year (Note 13).

3. Non-consolidated Subsidiary

Mainline Cablevision of Kamloops Ltd. is a public company incorporated under the laws of the province of British Columbia and is listed on the Vancouver Curb Exchange.

This investment is accounted for on an equity basis (Note 15).

4. Investment in Affiliated Company

Agra has invested \$1,746,669 in Canada All-News Radio Limited, an affiliated company accounted for on the equity basis. This company is establishing an all-news radio network in Canada and has deferred \$2,343,648 of costs in excess of revenue during the development of the network.

5. Bank Indebtedness

The bank indebtedness	includes:	1978	1977
Secured bank loans	\$ 6,260,331	8,427,066	
Cheques issued and uncashed	2,484,830	2,136,133	
	<hr/>	<hr/>	<hr/>
	\$ 8,745,161	10,563,199	

The bank loans are secured by general assignments of accounts receivable and inventories.

6. 6-1/2% Convertible Subordinated Debentures

During 1972 the Company issued \$3,000,000 of 6-1/2% Convertible Subordinated Debentures to mature March 15, 1992. The debentures are unsecured, direct obligations of the Company subordinated to the senior indebtedness of the Company.

The debentures are convertible until March 15, 1992 on the basis of 76,923 common shares per \$1,000 principal amount of debentures, equivalent to a conversion price of \$13 per share. The debentures are redeemable at any time at the option of the Company at their principal amount plus accrued interest provided that the average price at which the common shares of the Company have traded in the 30 day period prior to giving notice of redemption is at least 120% of the conversion price. The Company covenants that so long as any debentures remain outstanding it will use all reasonable effort to purchase in the market at such time or times in each 12 month period ending March 15, a total of at least \$90,000 principal amount of debentures outstanding at a price not exceeding 100% of the principal amount plus accrued interest. In the event debentures are not available for purchase in any 12 month period, the obligation is nullified in that period.

During the year ended July 31, 1978 the Company redeemed \$8,000 of these debentures to complete its obligation for the year.

7. Long-Term Debt

	1978	1977
Mortgages and chattel mortgages payable with interest rates averaging 11.6% (maturity dates from 1979 to 1987)	\$ 2,179,990	2,208,159
Notes, agreements and loans payable with interest rates averaging 10.4% (maturity dates from 1978 to 1988)	20,608,771	17,762,741
6-1/2% Convertible Subordinated Debentures (Note 6)	<u>2,462,000</u>	<u>2,470,000</u>
	25,250,761	22,440,900
Less current portion	<u>3,623,106</u>	<u>3,220,119</u>
	<u><u>\$21,627,655</u></u>	<u><u>19,220,781</u></u>

8. Dividend Restrictions

The Company is subject to certain restrictions on the payment of dividends contained in the Trust Deed providing for the 6-1/2% Convertible Subordinated Debentures and a loan agreement with a Canadian chartered bank.

9. Share Capital

Changes in the outstanding shares during the year:
 Issued for cash (Class A) 3,760 shares
 The Company has, pursuant to an agreement with a former lender, granted a pre-emptive right to maintain its percentage ownership in the Company. During the year 2,360 Class A shares were issued under this agreement for cash.

10. Stock Option Plan

Under the Company's stock option plan, dated November 27, 1969, options for 27,400 common shares of the Company have been granted to employees of the Company as of July 31, 1978. The plan provides that options are exercisable for a five year period and the price at which the options can be exercised may be no less than 90% of the market value of such shares at the time the options are granted. As of July 31, 1978, 14,400 shares have been issued to employees of the Company under the plan.

11. Segmented Revenue

Revenue by classification of business and percentages of the total were as follows:

	1978	%	1977	%
Foods Group				
Continuing operations ..	\$103,745,543	57.1	82,478,606	53.5
Discontinued operations ..	—	—	7,631,883	5.0
Engineering Group	58,543,289	32.2	47,960,799	31.1
Beverages Group	13,307,799	7.3	11,615,345	7.6
Communications Group	<u>6,133,447</u>	<u>3.4</u>	<u>4,390,464</u>	<u>2.8</u>
	<u><u>\$181,730,078</u></u>	<u><u>100.0</u></u>	<u><u>154,077,097</u></u>	<u><u>100.0</u></u>

12. Remuneration to Directors and Senior Officers

Remuneration to 21 directors and senior officers amounted to \$917,000 for the year.

13. Extraordinary Items

	1978	1977
Gain on operations sold (net of income tax of \$129,807)	\$3,017,941	—
(Loss) on discontinued operations (net of income tax (recovery) of (\$364,574))	—	(260,971)
Gain on exchange of CableNet shares	569,403	—
Gain on sale of building (net of income tax of \$45,042)	184,976	—
Other (net of income tax (recovery) of (\$10,718); 1977 - \$8,854)	(31,315)	(245,167)
	<u><u>\$3,741,005</u></u>	<u><u>(506,138)</u></u>

14. Lease Commitments

Minimum annual rental expense under long-term leases, the longest of which will expire in 1994, for the five succeeding years average approximately \$520,000 per annum.

15. Contractual Obligations and Commitments

During the year ended July 31, 1975 the Company acquired 75% of the outstanding shares of Mainline Cablevision of Kamloops Ltd. with the approval of the Canadian Radio-television and Telecommunications Commission. Agra is committed to reduce its ownership of shares to 50% by July 31, 1982.

16. Contingent Liabilities

The Company has guaranteed certain indebtedness of affiliated companies in the amount of \$2,977,000.

17. Pending Legal Proceedings

Agra Industries Limited and its subsidiaries are defendants in lawsuits involving various amounts. The results of these actions should not have any material effect on the financial position of the company.

18. Fully Diluted Net Earnings per Share

	1978	1977
Before extraordinary	\$1.04	.87
After extraordinary	2.49	.67

The fully diluted net earnings per share reflect earnings that would have been reported had all conversion rights been exercised.

19. Transactions Subsequent to Year-End

The Company sold certain of the assets of Greenlees Piledriving Co. Ltd. in exchange for a 22% interest in Fraser River Pile Driving Company Limited. The operations of Greenlees were then discontinued.

The Company has reached agreement to purchase cable television systems operating in Comox and Courtenay, B.C. for \$1,250,000 cash, subject to approval by the Canadian Radio-television and Telecommunications Commission.

The Company has agreed to acquire 1,163,817 non-voting convertible common shares of Cybermedix Limited, convertible into voting common shares at the Company's option, in exchange for all of its interest in CableNet Limited, Mainline Cablevision of Kamloops Limited and Wired City Communications Limited.

20. Anti-Inflation Controls

The Company was subject to the Federal Government's Anti-Inflation Act and Regulations until July 31, 1978.



VAN ROUGHRIDERS

AGRA INDUSTRIES LIMITED

Head Office:

1101 CN TOWERS,
SASKATOON, CANADA S7K 1J5
(306) 653-5163
Telex 074-2496

Office of the President:

1201 OLD MILL TOWERS,
39 OLD MILL ROAD,
TORONTO, CANADA M8X 1G6
(416) 231-1946

ENGINEERING GROUP

BBT Geotechnical Consultants Ltd.

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Edmonton, Alta. T6E 5B2
(403) 465-9854

6423A Burbank Road S.E.,
Calgary, Alta. T2H 2E1
(403) 252-1106

121-105th Street East,
Saskatoon, Sask. S7N 1Z2
(306) 374-6121

1550 Park Street,
Regina, Sask. S4N 2G1
(306) 523-9626

Torchinsky Consulting (1976) Ltd.

7708 Wagner Road,
Edmonton, Alta. T6E 5B2
(403) 465-0251

1-2310-50th Avenue,
Red Deer, Alta. T4R 1C5
(403) 346-5895

6423A Burbank Road S.E.,
Calgary, Alta. T2H 2E1
(403) 252-1106

P.O. Box 610,
Prince Albert, Sask. S6V 5S2
(306) 764-4154

121-105th Street East,
Saskatoon, Sask. S7N 1Z2
(306) 374-6121

160 Myrtle Avenue,
Yorkton, Sask. S3N 1R1
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Group Limited

CEL Contracting Ltd.

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Consultants Limited

Cambrian Processes Limited

Cambrian Project Management

Limited

Cambrian Contract Maintenance
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Saskatoon, Sask. S7N 1Z2
(306) 374-8242

1661 Park Street,
Regina, Sask. S4N 2G2
(306) 525-1345

10554-82nd Avenue,
Edmonton, Alta. T6B 2A4
(403) 432-7478

5104-82nd Avenue,
Edmonton, Alta. T6E 0E6
(403) 465-0319

5925-3rd Street S.E.,
Calgary, Alta. T2H 1K3
(403) 253-7631

The Western Caissons Group

Western Caissons Limited
Western Caissons Inc.
6700 Finch Ave. West,
Rexdale, Ont. M9W 5P5
(416) 675-1470

7708 Wagner Road,
Edmonton, Alta. T6E 5B2
(403) 465-0231

416 Monument Place,
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(403) 272-5531

121-105th Street East,
Saskatoon, Sask. S7N 1Z2
(306) 373-3762

515 Dewdney Ave. E.,
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(403) 328-4909

CO-AX CABLE TV (71%)
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117-2nd Street,
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